



Funding Options for Municipalities

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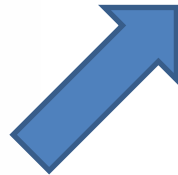
Financing Local Governments

- Need for “hard” services (water, sewers, and roads) and “soft” services (cultural facilities, parks, and libraries) to maintain quality of life
- Local governments that fail to provide these services will lose their economic advantage
- Local governments need adequate revenues to provide services and infrastructure – which revenues?

Outline of Presentation

- Linking revenues and expenditures
- Municipal revenues in Ontario and internationally
- Revenues:
 - Property taxes
 - Income and sales taxes
 - User fees
 - Federal and provincial transfers
- Final observations and key takeaway

TAX



Linking Revenues and Expenditures

Linking Revenues to Expenditures

- People want to see what they are getting for their taxes
- Linking taxes and services increases public support
- Examples of ballot initiatives in the US to pay for transit

DIFFERENT SERVICES – DIFFERENT REVENUE TOOLS

Private

Water
Sewers
Garbage
Transit

Public

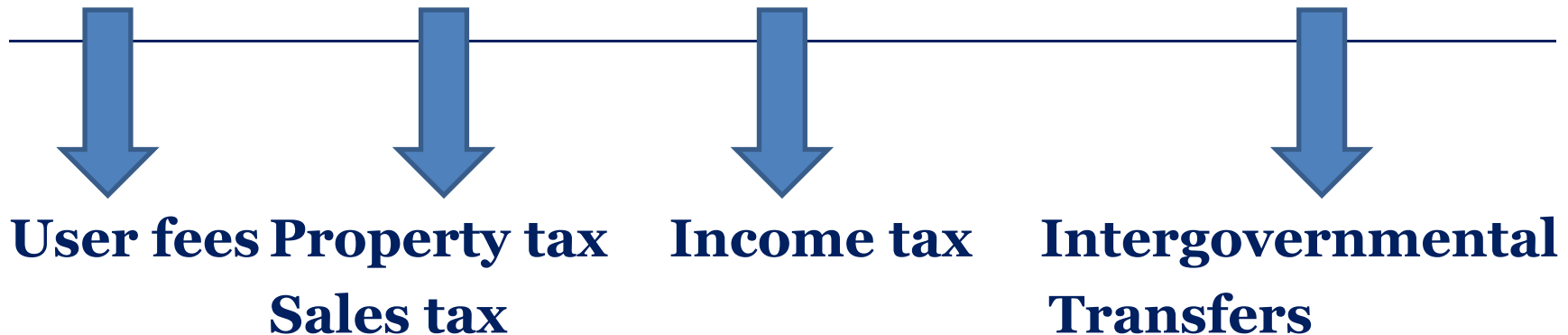
Police
Fire
Local parks
Street lights

Redistributive

Social assistance
Social housing

Spillovers

Roads/transit
Culture
Social assistance



DIFFERENT INFRASTRUCTURE – DIFFERENT FISCAL TOOLS

Taxes



short asset life
(police cars,
computers)

User fees



identifiable beneficiaries
(transit, water)

Borrowing



large scale assets
with long life
(roads, bridges)

DIFFERENT INFRASTRUCTURE – DIFFERENT FISCAL TOOLS

Development charges



growth-related costs;
new development or
redevelopment
(water, roads, sewers)

P3s



large in scale;
revenue stream;
measurable results
(toll roads)

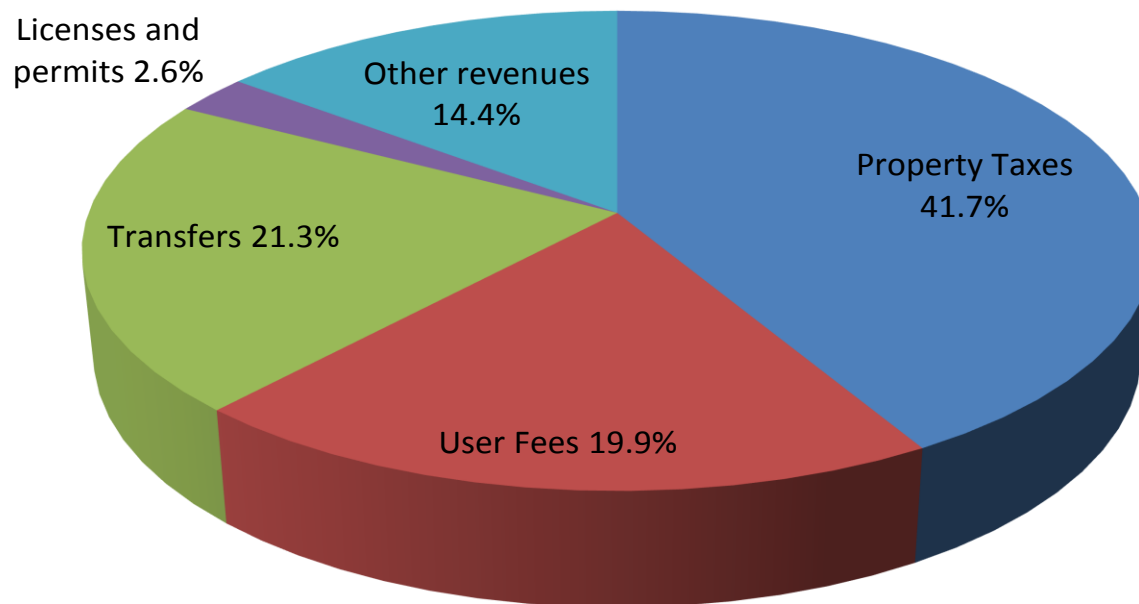
Land value capture taxes



increase property values
(transit)

Municipal Revenues in Canada and Other Countries

Municipal Revenues, Ontario, 2013



Other Municipal Taxes in Selected Provinces

- Land transfer tax
- Amusement taxes
- Hotel taxes
- Poll tax
- Vehicle registration tax
- Billboard tax
- Revenue sharing e.g. fuel tax sharing



International Experience

- More than 80% of local tax revenues from property taxes in Australia, New Zealand, Ireland, United Kingdom, Canada, US
- More than 80% of local tax revenues from personal and corporate income taxes in Sweden, Germany, Switzerland
- Sales taxes are levied mainly by cities in the US
- Mix of taxes in Spain (40% of local tax revenues from sales tax; 30% from property taxes; 20% from income tax and 10% from other)

What Does International Experience Tell Us?

- Access to one or more taxes depends on:
 - types of expenditures that need to be funded
 - local government's administrative capacity
 - willingness of provincial (or central) governments to assign taxes to local governments
 - constitutional and legislative requirements

Taxes

Property Tax – A Good Tax?

- Property is immovable
- Adequate, stable, predictable yield
- Visible/accountable
- Fair - related to benefits received; regressive?
- Residential rates not exported to other jurisdictions
- Minimum inter-municipal competition

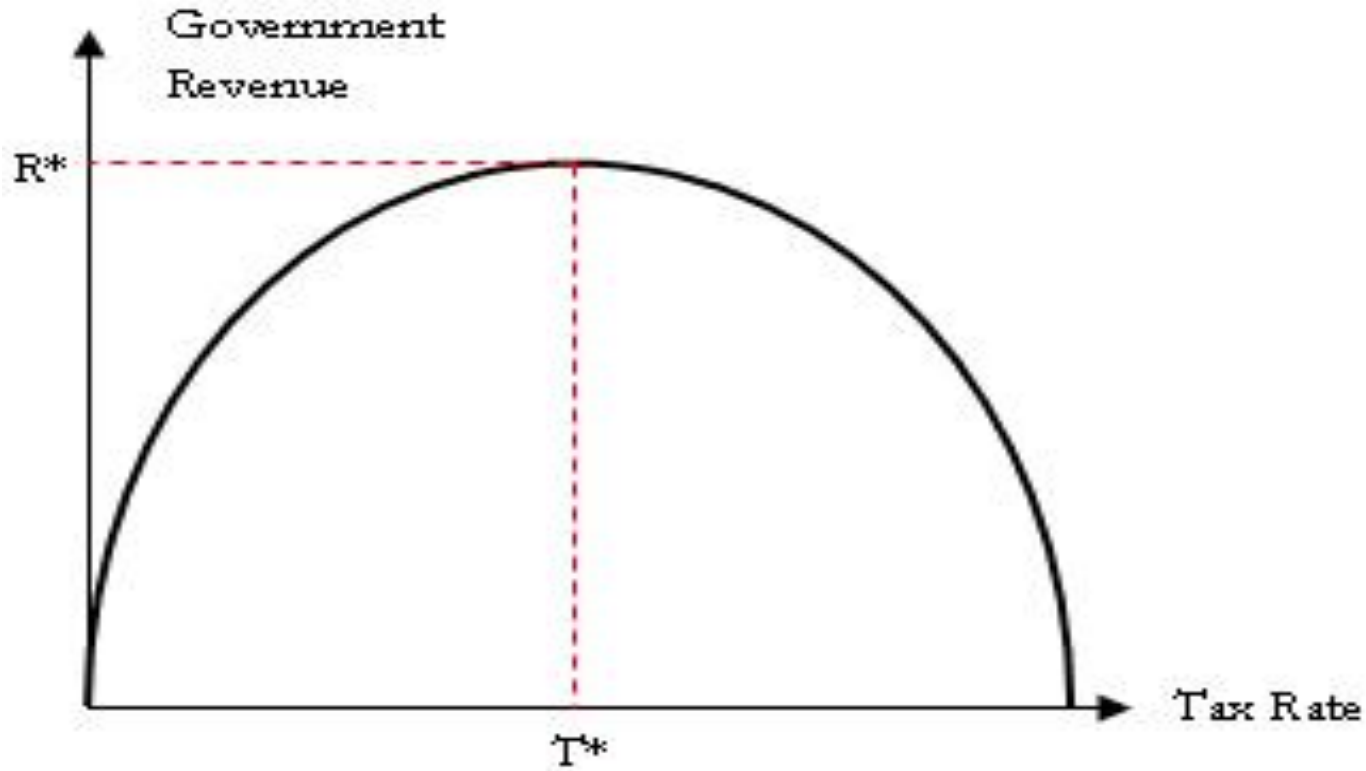
- Costly to administer -- arbitrariness of tax base
- Volatile for individual taxpayers
- Inelastic – doesn't automatically grow with economy

Property Tax – Is It Enough?

- Property tax (2010) yielded 3% or more of GDP in only three OECD countries: Canada, UK, US
- More than 2% of GDP in only four OECD countries: France, Israel, Japan, New Zealand
- Less than 1 percent of GDP in 22 countries

How to Reform the Property Tax: Lessons from Around the World --
Enid Slack and Richard Bird, IMFG Paper No. 21, 2015

Can Property Taxes be Increased?



Revenue Hills in GTA Municipalities

- Peak of the revenue hill has not been reached for residential property taxes in most municipalities (some exceptions, e.g. Oshawa)
- Closer to the peak of the revenue hill for non-residential property taxes in some municipalities but some municipalities shifting burden away from non-residential (e.g. Toronto)

Can GTA Municipalities Raise Property Taxes? An Analysis of Tax Competition and Revenue Hills – Almos Tassonyi, Richard Bird, and Enid Slack and Richard Bird, IMFG Paper No. 20, 2015

Personal Income Tax

- Elastic revenue source
- Taxes commuters if levied on the basis of origin (place of employment)
- Equitable based on ability to pay and benefits received
- Administrative costs low if piggyback onto existing system

But:

- Competition with federal and provincial governments
- Potential for inter-municipal tax competition
- May increase need for equalization

General Sales Tax

- Visible on each transaction
- Elastic revenue source
- Taxes benefits enjoyed by commuters and visitors
- Competition with federal and provincial governments
- Potential for inter-municipal competition if rates set locally **BUT** no way to set differential rates for HST

Excise Taxes

- Examples: hotel occupancy, fuel, vehicle registration, parking
- Some are benefit-related (e.g. vehicle registration tax is related to road use and external effects such as pollution and congestion)
- Can affect consumer behaviour e.g. vehicle taxes reduce automobile purchases; parking taxes reduce congestion

User Fees

User Fees -- Pricing Services Correctly

- How we pay for services affects our behaviour (e.g. how much water we consume, how much waste we generate)
- Pricing also affects nature, location and density of development
- Local governments need to price services and infrastructure correctly – manage demand for services and infrastructure
- Prevents undesirable income distributional impacts

Federal and Provincial Transfers

Federal and Provincial Transfers

- Equalization and grants to address spillovers are important but:
 - break the link between those who benefit and those who pay
 - not stable and predictable funding (depends on resources available)
 - no incentive to use proper pricing
 - conditional transfers distort local decision-making
 - accountability problems with conditional transfers when two or more levels of government fund the same service

Final Observations and Takeaway

Final Observations

- User fees should fund services where beneficiaries can be identified e.g. water, sewers, waste collection, transit, roads
- Local taxes – and possibly a range of taxes -- should fund services that provide collective benefits to the local community
- Intergovernmental transfers should be used for equalization, spillovers

Final Takeaway

- To ensure public goods meet preferences of beneficiaries and taxpayers and to improve responsiveness and accountability of local governments, it is important to link:
 - those who decide
 - those who benefit
 - those who pay